PACE - Property Assessed Clean Energy

Virginia Housing Commission – Housing and Environmental Standards Work Group

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What is PACE (Property Assessed Clean Energy)?

- PACE is a voluntary way for localities to create loan programs to finance energy efficiency projects on residential and commercial buildings using private capital.
- PACE loans are designed to be long term loans (up to 20 years) secured by a lien that has a priority status equal to a tax assessment, thus senior to a mortgage lien.
- Non-recourse, non-accelerating financing that is more like preferred equity than debt.
- Typically off-balance sheet. Property owners do not have to worry how additional debt, like a second mortgage, would impact their financial standing with investors and lenders.
- In some cases, building owners can pass the cost of the PACE assessment to the tenants. However, as the cost of the investment is less than the savings, it's a win-win.

Why was PACE financing developed?

- PACE financing can uniquely solve barriers to the adoption of energy efficiency measures.
    - Energy efficiency measures paid for by PACE will lower utility bills and pay for capital improvements, which benefits both building owners and tenants.
    - 100% financing – depending on program can be financed with no up-front cash investment.
    - Long-term financing (up to 20 years) results in immediate positive cash flow and lower annual payments (vs. short term construction financing).
    - The property owner can make significant energy efficiency investments that are beneficial Day 1 without worrying about having problem of long payback periods.
- PACE assessment like a tax assessment, stays with the property and is not required to be paid off if the property is sold.
- Owner does not have to risk the loss of his/her initial investment when selling the property.
- Allows use of longer payback periods even if the current owner will not maintain ownership over the long term.

What state and local benefits come from a PACE program?

- Provides local banks and financial institutions a potential new revenue stream by participating in making PACE loans.
    - PACE loans can also be bundled with other financing options, which makes financing easier across the board.

- Contributes to job creation in sectors that do the energy efficiency work such as local contractors, engineers, architects, attorneys, and product manufacturers.
  - Contractors have been the primary sales channel because contractors find it easier to sell their services easier when financing is available.
- Lower energy bills for homeowners and business = more money to spend in the community.

How does PACE financing work with existing mortgages?

- In order to protect the interests of lenders with the first mortgage lien on a property, PACE programs typically provide for existing lenders consent before a PACE loan is made and a PACE assessment (lien) is placed on the property.

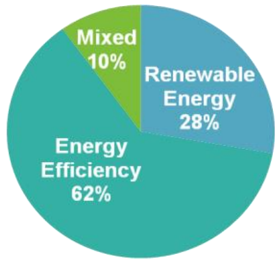
How does a PACE program work?

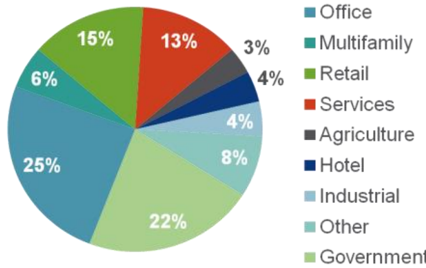
- Types of PACE programs:
  - State or local government management.
  - Private or open market.
- Process:
  - States enact legislation to allow the PACE mechanism.
  - Individual cities or counties, or groups of localities, establish local PACE ordinances.
  - Or, to avoid the somewhat lengthy process of each locality setting up its own program, a private or public statewide program administrator may set up a program that can finance PACE loans in a larger geographic area.
    - Examples - California First, Lean and Green Michigan, Missouri Clean Energy Funding.

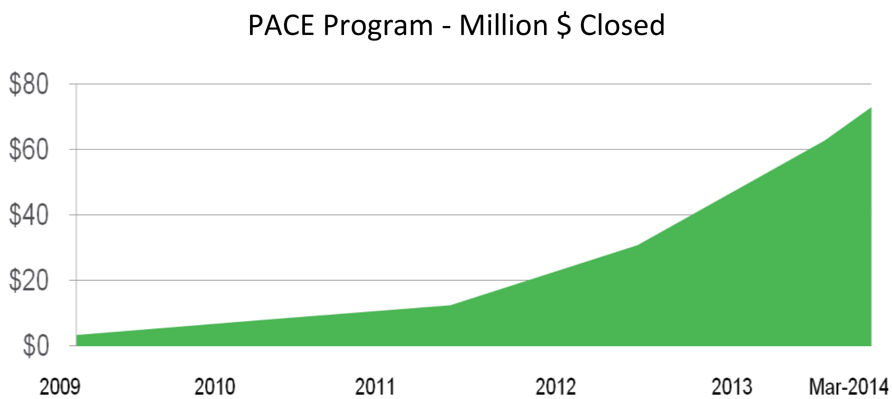
Where is PACE being used?

- PACE legislation has been enacted in 30 states, plus DC, including Virginia
- Eight states and Washington D.C. having active PACE programs.
  - California, Missouri, Minnesota, Florida, Michigan, Connecticut, Georgia (Atlanta), Ohio.
- Local examples
  - Toledo, Ohio – 85 projects; $22 million financing; $32 million project pipeline.
  - Connecticut – 30 projects; $20 million financing in Q2-Q4 2013; $70 million project pipeline.

What Types of Projects are being financed with PACE?







What lessons have been learned to have a successful PACE program?

- The PACE process must be standardized and streamlined for many owners. Uniformity is important across a service area. Need easy application & documentation.
- PACE should be incorporated into the existing commercial real estate ecosystem of lenders and contractors. Market education and sales support is essential to generating and originating new projects.
- Project facilitation, development & management required. A project leader should be clearly designated.
- No substitute for senior lien. Need simple lender consent to place the special assessment on a property. Work with banks early.
- New programs need to develop program materials, but also need to quickly move into selling and developing actual projects.
- Administration costs may influence type of projects delivered.
- Data collection and M&V of savings are cumbersome, but critical to investor confidence.
- Partnerships, support & training resources needed for market leverage & deal flow.

What is the history of PACE in Virginia?

- PACE legislation (Code of Virginia § 15.2-958.3. Financing clean energy programs).
    - Enacted 2009.
    - Amended 2010 – Added section D regarding local lien authority.
- HB 766 – 2014
    - Address administrative hurdles by using existing Service District authority.
    - PACE assessment would be treated like other service district tax assessments.
    - Concern over expanding Service Districts to a different type of improvements.
- Local interest in City of Fairfax, Arlington County, Loudoun County, City of Charlottesville, other.

Have states authorized additional services in PACE programs?

- Texas set up a well-structured organization to take the best of other PACE programs while avoiding pitfalls.
    - Ensured that their PACE program included energy related measures that would help their local industries such as improvements at their ports.
- Florida added hurricane mitigation measures to the list of measures that a building owner can adopt.
    - Florida also has a system which promotes private industry and capital to create competitive PACE loan programs.

What is next?

- Stakeholder group being created to address current status and needs.
- Need to address financing - lender consent.
- Evaluate opportunity for statewide program. Review 2014 analysis.
- Address amending the PACE or Service District statutes.
- Bring results back to the Virginia Housing Commission.

As we move forward with PACE in Virginia, we should take into consideration the pros/cons of other states and adapt our legislation to the needs of Virginians.

Code of Virginia § 15.2-958.3. Financing clean energy programs.

A. Any locality may, by ordinance, authorize contracts to provide loans for the initial acquisition and installation of clean energy improvements with free and willing property owners of both existing properties and new construction. Such an ordinance shall include but not be limited to the following:

1. The kinds of distributed generation renewable energy sources or energy efficiency improvements for which loans may be offered;

2. The proposed arrangement for such loan program, including (i) a statement concerning the source of funding that will be used to pay for work performed pursuant to the contracts; (ii) the interest rate and time period during which contracting property owners would repay the loan; and (iii) the method of apportioning all or any portion of the costs incidental to financing, administration, and collection of the arrangement among the consenting property owners and the locality;

3. A minimum and maximum aggregate dollar amount which may be financed;

4. A method for setting requests from property owners for financing in priority order in the event that requests appear likely to exceed the authorization amount of the loan program. Priority shall be given to those requests from property owners who meet established income or assessed property value eligibility requirements;

5. Identification of a local official authorized to enter into contracts on behalf of the locality; and

6. A draft contract specifying the terms and conditions proposed by the locality.

B. The locality may combine the loan payments required by the contracts with billings for water or sewer charges, real property tax assessments, or other billings; in such cases, the locality may establish the order in which loan payments will be applied to the different charges. The locality may not combine its billings for loan payments required by a contract authorized pursuant to this section with billings of another locality or political subdivision, including an authority operating pursuant to Chapter 51 (§ 15.2-5100 et seq.), unless such locality or political subdivision has given its consent by duly adopted resolution or ordinance.

C. The locality shall offer private lending institutions the opportunity to participate in local loan programs established pursuant to this section.

D. In order to secure the loan authorized pursuant to this section, the locality shall be authorized to place a lien equal in value to the loan against any property where such clean energy systems are being installed. The locality may bundle or package said loans for transfer to private lenders in such a manner that would allow the liens to remain in full force to secure the loans.

E. Prior to the enactment of an ordinance pursuant to this section, a public hearing shall be held at which interested persons may object to or inquire about the proposed loan program or any of its particulars. The public hearing shall be advertised once a week for two successive weeks in a newspaper of general circulation in the locality.

(2009, c. 773; 2010, c. 141.)